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CAPRIUS INC
Form SB-2
April 15, 2005

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 15, 2005
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CAPRIUS, INC.
(Name of Small Business Issuer in Its Charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	3845 (Primary Standard Industrial Classification Code Number)	22-2457487 (I.R.S. Employer Identification Number)
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ONE PARKER PLAZA
FORT LEE, NEW JERSEY 07024
(201) 592-8838
(Address and Telephone Number of Principal Executive Offices and
Principal Place of Business)

GEORGE AARON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
ONE PARKER PLAZA
FORT LEE, NEW JERSEY 07024
(201) 592-8838
(Name, Address and Telephone Number of Agent For Service)

Copies to:
BRUCE A. RICH, ESQ.
THELEN REID & PRIEST LLP
875 THIRD AVENUE
NEW YORK, NEW YORK 10022
(212) 603-2000

APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC: from time to time after the
effective date of this Registration Statement as determined by market conditions
and other factors.

If this Form is filed to register additional securities for an
offering pursuant to Rule 462(b) under the Securities Act, please check the
following box and list the Securities Act registration statement number of
the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule
462(c) under the Securities Act, check the following box and list the
Securities Act registration statement number of the earlier effective
registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule
462(d) under the Securities Act, check the following box and list the
Securities Act registration statement number of the earlier effective
registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule
434, please check the following box. []

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CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (1)	PROPOSED AGGREGATE PRICE
Common Stock, \$.01 par value	2,872,566 shs.	\$4.80	\$13,78
Common Stock, \$.01 par value(3)	620,689 shs.	\$5.60	\$3,47
Common Stock, \$.01 par value(3) (4)	80,000 shs.	\$5.60	\$44
Common Stock, \$.01 par value(3) (5)	240,504 shs.	\$5.60	\$1,34
Total	3,813,759 shs.	-	-

The registrant shall amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file an amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

Subject to Completion, Dated April 15, 2005

3,813,759 shares of Common Stock

ALL SHARE INFORMATION IN THIS PROSPECTUS, GIVES EFFECT TO A 1-FOR-20 REVERSE STOCK SPLIT OF OUR COMMON STOCK THAT WAS EFFECTIVE ON APRIL 5, 2005, AND IS CALCULATED ON A POST-SPLIT BASIS.

CAPRIUS, INC.

This prospectus relates to the resale by the selling stockholders listed elsewhere in this prospectus of up to 3,813,759 shares of our common stock. The selling stockholders may sell their shares from time to time at the prevailing market price or in negotiated transactions. Of the shares offered:

- 2,872,566 shares are presently outstanding, and
- 941,193 shares are issuable upon exercise of warrants and options.

We will receive no proceeds from the sale of the shares by the selling

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stockholders. However, we will receive proceeds in the amount of \$4,442,945 assuming the exercise of all of the warrants and options held by the selling stockholders, subject to certain of the warrants being exercised under a "cashless exercise" right.

Our common stock is traded on the over-the-counter electronic bulletin board. Our trading symbol is CAPS. On April 11, 2005, the last bid price as reported was \$3.65.

The selling stockholders, and any participating broker-dealers may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, and any commissions or discounts given to any such broker-dealer may be regarded as underwriting commissions or discounts under the Securities Act. The selling stockholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute their common stock.

Brokers or dealers effecting transaction in the shares should confirm the registration of these securities under the securities laws of the states in which transactions occur or the existence of our exemption from registration.

AN INVESTMENT IN SHARES OF OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. WE URGE YOU TO CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 4.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

April 15, 2005

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all the information that you should consider before investing in the common stock. You should carefully read the entire prospectus, including "Risk Factors" and the Consolidated Financial Statements, before making an investment decision.

THE COMPANY

BACKGROUND

Caprius, Inc. is engaged in the infectious medical waste disposal business. In the first quarter of Fiscal 2003, we acquired a majority interest in M.C.M. Environmental Technologies, Inc. ("MCM"), which develops, markets and sells the SteriMed and SteriMed Junior compact units (together, the "SteriMed Systems") that simultaneously shred and disinfect Regulated Medical Waste. The SteriMed Systems are sold in both the domestic and international markets.

Our principal business office is located at One Parker Plaza, Fort Lee, New Jersey 07024, and our telephone number at that address is (201) 592-8838.

In this prospectus, "Caprius," the "Company," "we," "us" and "our" refer to Caprius, Inc. and, unless the context otherwise indicates, our subsidiary MCM.

HISTORY

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In June 1999, we acquired Opus Diagnostics Inc. ("Opus") and began manufacturing and selling medical diagnostic assays constituting the Therapeutic Drug Monitoring Business ("TDM"). In October 2002, we sold the assets of the TDM business to Seradyn, Inc., an unrelated company. We were founded in 1983 and through June 1999 essentially operated in the business of seeking to develop specialized medical imaging systems, as well as operating the Strax Institute ("Strax"), a comprehensive breast imaging center. The Strax Institute was sold in September 2003 to an unrelated company.

ACQUISITION OF M.C.M. ENVIRONMENTAL TECHNOLOGIES, INC.

In December 2002, the Company closed the acquisition of our initial investment of 57.53% of the capital stock of MCM for a purchase price of \$2.4 million. MCM wholly-owns MCM Environmental Technologies Ltd., an Israeli corporation, which initially developed the SteriMed Systems. Upon closing, our designees were elected to three of the five seats on MCM's Board of Directors, with George Aaron, President and CEO, and Jonathan Joels, CFO, filling two seats. Additionally, as part of the transaction, certain debt of MCM to its existing stockholders and to certain third parties was converted to equity in MCM or restructured. Pursuant to its Letter of Intent with MCM, Caprius had provided MCM with loans totaling \$565,000, which loans were repaid upon closing by a reduction in the cash portion of the purchase price. As part of the Stockholders Agreement dated December 17, 2002, there were certain provisions relating to performance adjustments for the twenty four month period post closing. As a consequence, the Company's ownership interest increased by 5% in the fiscal year 2004.

STERIMED SYSTEMS

We developed and market worldwide the SteriMed and SteriMed Junior compact units that simultaneously shred and disinfect Regulated Medical Waste ("RMW"), reducing its volume up to 90%, and rendering it harmless for disposal as ordinary waste. The SteriMed Systems are patented, environmentally-friendly, on-site disinfecting and disposal units that can process regulated clinical waste, including sharps, dialysis filters, pads, bandages, plastic tubing and even glass, in a 12 minute cycle. The units, comparable in size to a washer-dryer, simultaneously shred, grind, mix and disinfect the waste with the proprietary Ster-Cid solution. After treatment, the material may be discarded as conventional solid waste, in accordance with appropriate regulatory requirements.

The SteriMed Systems enable generators of RMW, such as clinics and hospitals, to significantly reduce cost for treatment and disposal of RMW, eliminate the potential liability associated with the regulated "cradle to grave" tracking system involved in the transport of RMW, and treat in-house RMW on-site in an effective, safe and easy manner. As the technology for disinfection is chemical based, within the definitions used in the industry, it is considered as an alternative treatment technology.

The SteriMed Systems are comprised of two different sized units, and the required Ster-Cid disinfectant solution that can be utilized with both units. The larger SteriMed can treat up to 18.5 gallons (70 liters) of medical waste per cycle. The smaller version, the SteriMed Junior, can treat 4 gallons (15 liters) per cycle.

Ster-Cid is our proprietary disinfectant solution used in the SteriMed Systems. Ster-Cid is approximately 90% biodegradable and is registered with the

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U.S. Environmental Protection Agency ("U.S. EPA") in accordance with the Federal Insecticide, Fungicide, Rodenticide Act of 1972 ("FIFRA"). During the SteriMed disinfecting cycle, the concentration of Ster-Cid is approximately 0.5% of the total volume of liquids. The Ster-Cid disinfectant in conjunction with the SteriMed Systems has been tested in independent laboratories. Results show that disinfection levels specified in the U.S. EPA guidance document, "Report on State and Territorial Association on Alternate Treatment Technologies", are met. Furthermore, it is accepted by Publicly Owned Treatment Works ("POTW") allowing for its discharge into the sewer system.

Both SteriMed units are safe and easy to operate requiring only a half day of training. Once the cycle commences, the system is locked, water and Ster-Cid are automatically released into the treatment chamber. The shredding, grinding and mixing of the waste is then initiated exposing all surfaces of the medical waste to the chemical solution during the 12 minute processing cycle. At the end of each cycle, the disinfected waste is ready for disposal as regular solid waste.

In the United States, the initial focus of marketing the SteriMed Systems has been to the medium-term to larger chains of dialysis clinics on a lease or sales basis. In addition, we are also pursuing other potential users, including laboratories, plasma phoresis centers, blood banks, surgical centers and hospitals.

Internationally, we continue to market our SteriMed Systems both directly and indirectly through distributors. Our distributors are trained by us to enable them to take on the responsibility for the installation and maintenance that are required for the SteriMed Systems.

RECENT DEVELOPMENTS

PREFERRED STOCK PLACEMENT

On February 15, 2005, we sold to several investors (i) 45,000 shares of newly-created Series C Mandatory Convertible Preferred Stock ("Series C Preferred Stock"), (ii) Series A Warrants to purchase an aggregate of 465,517 shares of our common stock at an exercise price of \$5.60 per share, for a period of five years, and (iii) Series B Warrants to purchase an aggregate of 155,172 shares of our common stock at an exercise price of \$2.90 per share, for a period of five years exercisable after nine months, subject to a termination condition defined under Warrant B, Section 18, for an aggregate purchase price of \$4.5 million. The placement proceeds were utilized for the expansion of MCM's infectious medical waste disposal business, for repayment of \$2,168,100 of debt and for our general working capital purposes. As conditions to the placement, (i) holders of 8% Senior Secured Convertible Promissory Notes in an aggregate principal amount of \$1.5 million, issued by us during the third quarter of fiscal 2004, converted their notes and all interest accrued thereon into 15,953 shares of Series C Preferred Stock, (ii) holders of short-term bridge loan notes in an aggregate of \$500,000, issued by us during the second quarter of fiscal 2004, converted all of their notes into 5,000 shares of Series C Preferred Stock and the interest accrued thereon was paid in cash, (iii) holders of loans made to us in the aggregate amount of \$145,923 exchanged 50% of their loans for 728 shares of Series C Preferred Stock, with the remaining 50% of the loans and the interest accrued thereon paid in cash, and (iv) we agreed to effect a 1:20 reverse split of our common stock on a post-placement basis in order to have sufficient authorized but unissued shares of our common stock to accommodate the placement, as well as future issuances.

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1 FOR 20 REVERSE STOCK SPLIT

On April 5, 2005, we effected a 1-for-20 reverse stock split of our common stock. Upon the reverse split, the 66,681 outstanding shares of Series C Preferred Stock automatically converted into 2,299,345 shares of our common stock. As a result of the reverse split, we will have outstanding 3,321,673 shares of common stock. In addition, we will reserve 1,020,804 shares for conversion of the Series B Preferred Stock and the exercise of options and warrants, and will have 45,656,392 authorized but unissued shares which may be issued in connection with acquisitions or subsequent financings. The reverse split will not change the number of authorized shares of common stock and preferred stock.

SALE OF STRAX INSTITUTE

Effective September 30, 2003, we completed the sale of the Strax Institute for a purchase price of \$412,000. Half of the purchase price was paid on closing and the balance is payable in installments evidenced by a note secured by the accounts receivables of Strax Institute, Inc. During the first quarter of fiscal year 2005, the parties agreed to settle the net outstanding balance with a payment of \$66,000, which was paid in two equal installments in December 2004 and January 2005.

THE OFFERING

SECURITIES OFFERED BY SELLING STOCKHOLDERS	3,813,759 shares, includes 941,193 shares subject to options and warrants.
COMMON STOCK TO BE OUTSTANDING AFTER THE OFFERING.....	4,262,866 shares, assuming the selling stockholders exercise all their options and warrants.
USE OF PROCEEDS.....	We will receive no proceeds from the sale of common stock by the selling stockholders. However, we will receive \$4,442,945 if all of the warrants and options for underlying shares included in this prospectus are exercised. We will use these proceeds for general corporate purposes.
OTC ELECTRONIC BULLETIN BOARD SYMBOL....	"CAPS"

RISK FACTORS

See "RISK FACTORS" for a discussion of certain factors that should be considered in evaluating an investment in the common stock.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following selected financial information is derived from the Consolidated Financial Statements appearing elsewhere in this Prospectus and should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this Prospectus.

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	YEAR ENDED SEPTEMBER 30		
Summary of Operations	2004	2003	
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Total revenues	\$ 885,461	\$ 600,579	\$ 26
Loss from continuing operations	(3,249,963)	(4,052,867)	(79
Income from operations of discontinued TDM business segment (including gain on disposal of \$3,214,189 in October 2002)	-	3,287,587	
Loss from operations of discontinued Strax Business (including gain on disposal of \$125,658 at September 30, 2003)	(105,806)	(18,830)	
Loss applicable to minority interest	-	459,906	
Net loss	(3,355,769)	(324,204)	(79
Loss from continuing operations per share	(3.18)	(3.52)	
Income (loss) from discontinued operation per share	(0.10)	3.20	
Net loss per common share (basic and diluted)	(3.28)	(0.32)	
Weighted average common shares outstanding, basic and diluted	1,022,328	1,020,116	1,02

	Unaudited AS OF DECEMBER 31, 2004	AS OF SEPTEMBER 30, 2003
Statement of Financial Position		
Cash and cash equivalents	\$ 19,146	\$ 27
Total assets	2,206,890	2,413
Working capital deficit	(2,981,099)	(2,330
Long-term debt	-	
Stockholders' deficiency	(1,696,258)	(899,

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RISK FACTORS

The shares of our common stock being offered for resale by the selling stockholders are highly speculative in nature, involve a high degree of risk and should be purchased only by persons who can afford to lose the entire amount invested in the common stock. Before purchasing any of the shares of common stock, you should carefully consider the following factors relating to our business and prospects. If any of the following risks actually occurs, our business, financial condition or operating results could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

BUSINESS RISKS

WE HAVE A HISTORY OF LOSSES

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To date, we have been unable to generate revenue sufficient to be profitable. We had a net loss of \$3,355,769, or \$(3.28) per share, for the fiscal year ended September 30, 2004, compared to a net loss of \$324,204, or \$(0.32) per share, for the fiscal year ended September 30, 2003, and a net loss of \$797,072, or \$(0.78) per share, for the three month period ended December 31, 2004. We can expect to incur losses for the immediate foreseeable future. There can be no assurance that we will achieve the level of revenues needed to be profitable in the future or, if profitability is achieved, that it will be sustained. Due to these losses, we have a continuing need for additional capital.

RISK OF NEED FOR ADDITIONAL FINANCING

We raised gross proceeds of \$1.5 million in a placement of convertible secured notes in the third quarter of fiscal 2004 and gross proceeds of \$4.5 million in a placement of Series C Preferred Stock and warrants in the second quarter of fiscal 2005. The net proceeds from these placements should fulfill our capital needs through March 31, 2006 based upon our present business plan. However, we expect to require additional working capital or other funds in the near future should we need to modify our business plan. These funds are required to support our marketing efforts, obtaining additional regulatory approvals both domestically and overseas as well as for manufacturing purposes. In the event we are unable to achieve any market penetration in the near term, secure regulatory approvals or build inventory available for immediate delivery, our ability to secure additional funding could be severely jeopardized. No assurance can be given that we will be successful in obtaining additional funds, whether publicly or privately or through equity or debt. Any such financing could be highly dilutive to stockholders.

OUR LACK OF OPERATING HISTORY MAKES EVALUATION OF OUR BUSINESS DIFFICULT.

The MCM business, our primary business, is at an early stage of commercialization and there is no meaningful historical financial or other information available upon which you can base your evaluation of this business and its prospects. We acquired the MCM business in December 2002 and have generated insubstantial revenues to date from it.

In addition, our early stage of commercialization means that we have less insight into how market and technology trends may affect our business. This includes our ability to attract and convince customers to switch from their current method of dealing with the disposal of their medical waste to a new technology and to adjust their current in-house system to adapt to our SteriMed Systems. As a consequence, the revenue and income potential of our business is unproven. Further, we cannot estimate the expenses for operating the business. If we are incorrect in our estimates, it could be detrimental to our business.

WE EXPECT OUR MANUFACTURING AND MARKETING DEVELOPMENT WORK FOR OUR MCM BUSINESS TO CONTINUE FOR SOME TIME, AND OUR MANUFACTURING AND MARKETING MAY NOT SUCCEED OR MAY BE SIGNIFICANTLY DELAYED.

At present, the SteriMed is manufactured at our own facility in Israel. The SteriMed Junior had been manufactured by a third party manufacturer in Israel. While we expect our manufacturing and product development work to continue in Israel, due to the limited capacity as well as the high costs of transportation from Israel, we are seeking alternative

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manufacturing and assembly capacity for the SteriMed Junior unit with manufacturers in North America. As we receive interest from these manufacturers, we will then undertake a detailed analysis to ensure that they are sufficiently qualified to manufacture our unit and that their costs are acceptable to us. If we fail to effectively manufacture or cause the manufacture of or fail to develop a market for our SteriMed Systems, we will likely be unable to recover the losses we will have incurred in attempting to produce and market these products and technologies and may be unable to make sales or become profitable. As a result, the market price of our securities may decline, causing you to lose some or all of your investment.

DEPENDENCE ON OUR THIRD PARTY COMPONENT SUPPLIERS

We are dependent on third party suppliers for the components of our SteriMed and SteriMed Junior units and also for the Ster-Cid disinfectant. At present there are no supply contracts in place and our requirements are fulfilled against purchase orders. There can be no assurances that we will have adequate supplies of materials. Although we believe that the required components are readily available and can be provided by other suppliers, delays may be incurred in establishing relationships or in awaiting for quality control assurance with other manufacturers for substitute components.

WE ARE SUBJECT TO EXTENSIVE GOVERNMENTAL REGULATION WITH WHICH IT IS FREQUENTLY DIFFICULT, EXPENSIVE AND TIME-CONSUMING TO COMPLY.

The medical waste management industry is subject to extensive U.S. EPA, state and local laws and regulations relating to the collection, packaging, labeling, handling, documentation, reporting, treatment and disposal of regulated medical waste. The use of the Ster-Cid disinfectant in the SteriMed Systems is registered with the U.S. EPA under FIFRA, however, the SteriMed Systems are not subject to U.S. EPA registration. Our business requires us to comply with these extensive laws and regulations and also to obtain permits, authorizations, approvals, certificates or other types of governmental permission from all states and some local jurisdictions where we sell or lease the SteriMed Systems. The SteriMed has been cleared for marketing in 46 states and the SteriMed Junior in 40 states. It is our objective to obtain approvals from the remaining states. The Ster-Cid has been registered in 49 states. Our ability to obtain such approvals in the remaining states and the timing and cost to do so, if successful, cannot be easily determined nor can the receipt of ultimate approval be assumed.

In markets outside the U.S., our ability to market the SteriMed Systems is governed by the regulations of the specific country. In foreign countries we primarily market through distributors, on which we rely to obtain the necessary regulatory approvals to permit the SteriMed Systems to be marketed in that country. We are therefore dependent on the distributors to process these applications where required. In many of these countries we have no direct control or involvement in the approval process, and therefore we cannot estimate when our product will be available in that market.

We believe that we currently comply in all material respects with all applicable laws, regulations and permitting requirements. State and local regulations change often, however, and new regulations are frequently adopted. Changes in the applicable regulations could require us to obtain new approvals or permits, to change the way in which we operate or to make changes to our SteriMed Systems. We might be unable to obtain the new approvals or permits that we require, and the cost of compliance with new or changed regulations could be significant. In the event we are not in compliance, we can be subject to fines and administrative, civil or criminal sanctions or suspension of our business.

The approvals or permits that we require in foreign countries may be difficult and time-consuming to obtain. They may also contain conditions or

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restrictions that limit our ability to operate efficiently, and they may not be issued as quickly as we need (or at all). If we cannot obtain the approval or permits that we need when we need them, or if they contain unfavorable conditions, it could substantially impair our ability to sell the SteriMed Systems in certain jurisdictions or to import the system into the United States.

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WE MAY NOT BE ABLE TO EFFECTIVELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS AND PROPRIETARY TECHNOLOGY, WHICH COULD HAVE A MATERIAL AFFECT ON OUR BUSINESS AND MAKE IT EASIER FOR OUR COMPETITORS TO DUPLICATE OUR PRODUCTS.

We regard certain aspects of our products, processes, services and technology as proprietary, and we have trademarks and patents for certain aspects of the SteriMed Systems. Our ability to compete successfully will depend in part on our ability to protect our proprietary rights and to operate without infringing on the proprietary right of others, both in the United States and abroad. Our proprietary rights to Ster-Cid relate to an exclusive worldwide license that we had obtained from a third party manufacturer in Europe to purchase the Ster-Cid disinfectant. The patent positions of medical waste technology companies generally involve complex legal and factual questions. While patents are important to our business, the regulatory approvals are more critical in permitting us to market our products. We may also apply in the future for patent protection for uses, processes, products and systems that we develop. There can be no assurance that any future patent for which we apply will be issued, or that any existing patents issued will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide any competitive advantage, or that third parties will not infringe or misappropriate our proprietary rights or that third parties will not independently develop similar products, services and technology. We may incur substantial costs in defending any patent or license infringement suits or in asserting any patent or license rights, including those granted by third parties, the expenditure of which we might not be able to afford. An adverse determination could subject us to significant liabilities to third parties, require us to seek licenses from or pay royalties to third parties or require us to develop appropriate alternative technology. There can be no assurance that any such licenses would be available on acceptable terms or at all, or that we could develop alternate technology at an acceptable price or at all. Any of these events could have a material adverse effect on our business and profitability.

We may have to resort to litigation to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others, or defend ourselves from claims of infringement, invalidity or unenforceability. Litigation may be expensive and divert resources even if we win. This could adversely affect our business, financial condition and operating results such that it could cause us to reduce or cease operations.

WE MAY NOT BE ABLE TO DEVELOP NEW PRODUCTS THAT ACHIEVE MARKET ACCEPTANCE

Our future growth and profitability depend in part on our ability to respond to technological changes and successfully develop and market new products that achieve significant market acceptance. This industry has been historically marked by very rapid technological change and the frequent introductions of new products. There is no assurance that we will be able to develop new products that will realize broad market acceptance.

THE NATURE OF OUR BUSINESS EXPOSES US TO PROFESSIONAL AND PRODUCT LIABILITY

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CLAIMS, WHICH COULD MATERIALLY ADVERSELY IMPACT OUR BUSINESS AND PROFITABILITY

The malfunction or misuse of our SteriMed Systems may result in damage to property or persons, as well as violation of various health and safety regulations, thereby subjecting us to possible liability. Although our insurance coverage is in amounts and deductibles customary in the industry, there can be no assurance that such insurance will be sufficient to cover any potential liability. We currently retain a claims made \$2 million worldwide product liability insurance policy. Further, in the event of either adverse claim experience or insurance industry trends, we may in the future have difficulty in obtaining product liability insurance or be forced to pay very high premiums, and there can be no assurance that insurance coverage will continue to be available on commercially reasonable terms or at all. In addition, there can be no assurance that insurance will adequately cover any product liability claim against us. A successful product liability, environmental or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on our business, financial condition and operations. To date, no claims have been made against us. We believe that our insurance coverage is adequate to cover any claims made, and we review our insurance requirement with our insurance broker on an annual basis.

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OTHER PARTIES MAY ASSERT THAT OUR TECHNOLOGY INFRINGES ON THEIR INTELLECTUAL PROPERTY RIGHTS, WHICH COULD DIVERT MANAGEMENT TIME AND RESOURCES AND POSSIBLY FORCE US TO REDESIGN OUR PRODUCTS.

Developing products based upon new technologies can result in litigation based on allegations of patent and other intellectual property infringement. While no infringement claims have been made or threatened against us, we cannot assure you that third parties will not assert infringement claims against us in the future, that assertions by such parties will not result in costly litigation, or that they will not prevail in any such litigation. In addition, we cannot assure you that we will be able to license any valid and infringed patents from third parties on commercially reasonable terms or, alternatively, be able to redesign products on a cost-effective basis to avoid infringement. Any infringement claim or other litigation against or by us could have a material adverse effect on us and could cause us to reduce or cease operations, and even if we are successful in a litigation to defend such claim, there may be adverse effects due to the significant expenses related to defending the litigation.

THE LOSS OF CERTAIN MEMBERS OF OUR MANAGEMENT TEAM COULD ADVERSELY AFFECT OUR BUSINESS.

Our success is highly dependent on the continued efforts of George Aaron, Chairman, President and Chief Executive Officer, and Jonathan Joels, Chief Financial Officer, Treasurer and Secretary, who are our key management persons. Should operations expand, we will need to hire persons with a variety of skills and competition for these skilled individuals could be intense. Neither Mr. Aaron nor Mr. Joels plan to retire or leave us in the near future. However, there can be no assurance that we will be successful in attracting and/or retaining key personnel in the future. Our failure to do so could adversely affect our business and financial condition. We do not have employment agreements with or carry any "key-man" insurance on the lives of any of our officers or employees.

DEFENSE OF LITIGATION AND EFFECT OF NEGATIVE OUTCOME

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We have been involved in defending two litigations, a Class Action and a Federal Derivative Action, in which Jack Nelson, a former officer and director of the Company has directly or indirectly made claims alleging misrepresentations, mismanagement or other misconduct by us or certain of our officers and directors. A third litigation, a State Court Action instituted by Mr. Nelson, was settled in September 2003.

In May 2004 and confirmed in July 2004, in a decision separate from the decision in the Federal Derivative Action, the Court granted the defendants' motion and dismissed the Class Action. The initial plaintiff was a relative of the wife of the plaintiff in both the Federal Derivative Action and the State Court Action. The plaintiff did not file a notice of appeal during the statutory time period.

In May 2004, the Court in the Federal Derivative Action granted the motion made by us and Messrs. Aaron and Joels for judgment on the pleadings based upon the pre-suit demand requirement and dismissed the plaintiff's complaint without prejudice, but denied defendants' motion for judgment on the pleadings based upon the Private Securities Litigation Reform Act. The Court also granted the plaintiff's cross-motion to file an amended complaint to add allegations of insider trading. On September 30, 2004, our Board of Directors received a letter from Mr. Nelson's attorney making a demand that we institute a derivative action substantially similar to the contents of the complaint that had been filed in the Federal Derivative Action. In late December 2004, a Board committee responded to the letter, stating that the committee had determined that there was no basis for us to institute the derivative action. There has been no further communication from Mr. Nelson's attorney.

No damages were specified in these cases. However, the cost of defending these litigations has been material to us and any continued or new litigations and any monetary judgment against us could have a material adverse effect on our financial condition and continuation of operations. In addition, claims by the defendant officers and directors for indemnification, notwithstanding our having directors and officers insurance covering securities act claims in the Class Action, could be material.

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DEPENDENCE ON PRINCIPAL CUSTOMERS

Two principal customers, Euromedic and Lysmed, which are foreign distributors in Central and Eastern Europe, accounted for approximately 72% of our revenues from our SteriMed business for fiscal year 2004. These two customers together with Advanced Washroom and a major US dialysis company accounted for approximately 88% of our revenues in the three months ended December 31, 2004. We are presently working on the expansion of our sales, both internationally and domestically. In fiscal year 2005, we received our first significant order for the SteriMed Junior from a major US dialysis company. The loss of any one of our principal customers would have a significant adverse impact to our business.

COMPETITION

There are numerous methods of handling and disposing of RMW, of which our technology is one of the available systems. We are not aware of any competitive product that is similar to the SteriMed Systems with respect to its design and compactness. We believe that our SteriMed Systems, due to their ability to be used on site, competitive costing and ease of use, offer a significant advantage over RMW systems offered by our competitors. We realize,

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however, there can be no assurance that a different or new technology may not supplant us in the market. Further, we cannot guarantee that in the event that we are successful in the deployment of our systems in the marketplace, the predominant companies in the field, which have substantially greater resources and market visibility than us, will not try to develop similar systems.

CONTROL BY A LEAD INVESTOR

An investor group beneficially owns approximately 50.12% of the outstanding common stock, including all shares and underlying warrants currently held by them. Accordingly, they could exercise a significant voting block in the election of directors and other matters to be acted upon by stockholders.

MARKET RISKS

THERE IS ONLY A VOLATILE LIMITED MARKET FOR OUR COMMON STOCK

Recent history relating to the market prices of public companies indicates that, from time to time, there may be periods of extreme volatility in the market price of our securities because of factors unrelated to the operating performance of, or announcements concerning, the issuers of the affected stock, and especially for stock traded on the OTC Bulletin Board. Our common stock is not actively traded, and the bid and asked prices for our common stock have fluctuated significantly. Since January 1, 2003, the common stock traded on the OTC Bulletin Board from a high of \$6.80 to a low of \$1.00 per share. See "MARKET FOR OUR COMMON STOCK." General market price declines, market volatility, especially for low priced securities, or factors related to the general economy or to us in the future could adversely affect the price of the common stock. With the low price of our common stock, any securities placement by us would be very dilutive to existing stockholders, thereby limiting the nature of future equity placements.

THE NUMBER OF SHARES BEING REGISTERED FOR SALE IS SIGNIFICANT IN RELATION TO OUR TRADING VOLUME

All of the shares registered for sale on behalf of the selling stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. At April 5, 2005, we had 3,322,798 outstanding shares of common stock and an aggregate of 1,020,804 shares of common stock reserved for the conversion of Series B Preferred Stock and the exercise of options and warrants. Of the 4,343,602 shares, an aggregate of 3,813,759 shares have been included in this prospectus. We have filed this registration statement to register these restricted shares for sale into the public market by the selling stockholders. These restricted securities, if sold in the market all at once or at about the same time, could depress the market price during the period the registration statement remains effective and also could affect our ability to raise equity capital. Any outstanding shares not sold by the selling stockholders pursuant to this prospectus will remain as "restricted shares" in the hands of the holder, except for those held by non-affiliates for a period of two years, calculated pursuant to Rule 144.

WE HAVE NEVER PAID DIVIDENDS AND WE DO NOT ANTICIPATE PAYING DIVIDENDS IN THE FUTURE

We do not believe that we will pay any cash dividends on our common stock in the future. We have never declared any cash dividends on our common stock, and if we were to become profitable, it would be expected that all of

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such earnings would be retained to support our business. Since we have no plan to pay cash dividends, an investor would only realize income from his investment in our shares if there is a rise in the market price of our common stock, which is uncertain and unpredictable.

SHARES ELIGIBLE FOR FUTURE SALE COULD NEGATIVELY AFFECT YOUR INVESTMENT IN US

The fact that we are seeking additional capital through the sale of our securities, including shares of our preferred stock, which include granting certain registration rights to the investors, could negatively impact us. At April 5, 2005, we had 45,625,483 shares of common stock and 973,000 shares of preferred stock which our Board of Directors could issue without any approval of existing holders. The issuance of these shares, as well as the issuance of any new shares, and any attempts to resell them could depress the market for the shares being registered under this prospectus.

WE ARE SUBJECT TO PENNY STOCK REGULATIONS AND RESTRICTIONS

The Securities and Exchange Commission has adopted regulations which generally define Penny Stocks to be an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. As of April 5, 2005, the closing bid and asked prices for our common stock were \$4.20 and \$4.80 per share and therefore, it is designated a "Penny Stock." As a Penny Stock, our common stock may become subject to Rule 15c-9 under the Securities Exchange Act of 1934, as amended ("Exchange Act"), or the Penny Stock Rule. This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and "accredited investors" (generally, individuals with a net worth in excess of \$1,000,000 or annual incomes exceeding \$200,000, or \$300,000 together with their spouses). For transactions covered by Rule 15c-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the Securities and Exchange Commission ("SEC") relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that our common stock will qualify for exemption from the penny stock restrictions. In any event, even if our common stock were exempt from the Penny Stock restrictions, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

CERTAIN PROVISIONS OF OUR CHARTER COULD DISCOURAGE POTENTIAL ACQUISITION PROPOSALS OR CHANGE IN CONTROL

Certain provisions of our Certificate of Incorporation and of Delaware law could discourage potential acquisition proposals and could make it more difficult for a third party to acquire or discourage a third party from attempting to acquire control of us. These provisions could diminish the opportunities for a stockholder to participate in tender offers, including tender offers at a price above the then current market value of the common stock. Our Board of Directors, without further stockholder approval, may issue

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preferred stock that would contain provisions that could have the effect of delaying or preventing a change in control or which may prevent or frustrate any attempt by stockholders to replace or remove the current management. The issuance of additional shares of preferred stock could also adversely affect the

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voting power of the holders of common stock, including the loss of voting control to others.

FORWARD LOOKING STATEMENTS

Information included or incorporated by reference in this prospectus may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology.

This prospectus contains forward-looking statements, including statements regarding, among other things, (a) our projected sales and profitability, (b) our technology, (c) our manufacturing, (d) the regulation to which we are subject, (e) anticipated trends in our industry and (f) our needs for working capital. These statements may be found under "Management's Discussion and Analysis or Plan of Operations" and "Business," as well as in this prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this prospectus will in fact occur.

USE OF PROCEEDS

We will not receive any portion of the proceeds from the sale of common stock by the selling stockholders. We may receive proceeds of up to \$4,442,945 if all the warrants and options underlying some of the shares sold are exercised and no cashless-exercise procedure is used. Management currently anticipates that any such proceeds will be utilized for working capital and other general corporate purposes. We cannot estimate how many, if any, warrants and options may be exercised as a result of this offering.

We are obligated to bear the expenses of the registration of the shares. We anticipate that these expenses will be approximately \$75,000.

DIVIDEND POLICY

We have never declared dividends or paid cash dividends. We intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Moreover, covenants in the convertible promissory notes prevent us from paying any dividends on our common stock while those notes are outstanding.

MARKET FOR OUR COMMON STOCK

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PRINCIPAL MARKET AND MARKET PRICES

Our common stock has traded in the over-the-counter market on the OTC Electronic Bulletin Board (OTCBB) under the symbol CAPS. Prior to the April 5, 2005 reverse split, our trading symbol was CAPR. The following table sets forth for the indicated periods the high and low bid prices of the common stock for the two fiscal years ended September 30, 2004, and for the period from October 1, 2004 through April 5, 2005 as reported on the OTCBB. These prices are based on quotations between dealers, and do not reflect retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions.

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FISCAL PERIOD	FISCAL YEAR ENDING 9/30/05		FISCAL YEAR ENDED 9/30/04		FISCAL YEAR ENDED 9/30/03	
	High	Low	High	Low	High	Low
First Quarter	\$3.80	\$2.20	\$5.00	\$2.20	\$3.00	\$1.40
Second Quarter	6.80	2.60	5.00	1.00	2.60	1.60
Third Quarter*	5.00	3.20	4.40	1.00	2.60	2.00
Fourth Quarter	-	-	5.00	2.20	6.20	2.00
Reflects Reverse Stock Split 1:20						
*Reflects prices through April 11, 2005						

APPROXIMATE NUMBER OF HOLDERS OF OUR COMMON STOCK

On February 28, 2005, there were approximately 1,300 stockholders of record of our capital stock. Since a substantial amount of the shares are held in nominee name for beneficial owners, we believe that there are a substantial number of additional beneficial owners.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and the notes thereto and the other financial information appearing elsewhere in this prospectus. In addition to historical information contained herein, the following discussion and other parts of this prospectus contain certain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements due to factors discussed under "Risk Factors", as well as factors discussed elsewhere in this prospectus. The cautionary statements made in this prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this prospectus.

RESULTS OF OPERATIONS

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Our continuing operations are classified as the infectious medical waste business. In the year ended September 30, 2002, our operations were classified into two business segments: imaging services (Strax) and the therapeutic drug monitoring assay business (TDM Business). We completed the sale of our imaging business (Strax) effective as of September 30, 2003, as well as the sale of our TDM business segment effective October 9, 2002. As a result, our consolidated balance sheet for the 2004 and 2003 fiscal years have been restated to reflect the Strax business and the TDM business as discontinued operations. These changes in our business operations make it difficult to compare our prior financial results by period.

FISCAL YEAR ENDED SEPTEMBER 30, 2004 COMPARED TO FISCAL YEAR ENDED

SEPTEMBER 30, 2003

Revenues generated for fiscal year ended 2004 ("Fiscal 2004") were primarily generated by MCM product sales and rental revenues which totaled \$835,461 for Fiscal 2004 as compared with \$550,579 for the fiscal year ended 2003 ("Fiscal 2003"). Sales for Fiscal 2004 increased over Fiscal 2003 with the delivery of the SteriMed Junior as well as the SteriMed in international markets. For Fiscal 2004, two customers accounted for approximately 72% of the consolidated total revenue. Accounts receivable due from these customers as of September 30, 2004 amounted to \$45,267. For Fiscal 2003, one customer accounted for approximately 30% of the consolidated total revenue. Accounts receivable due from this customer as of September 30, 2003 amounted to \$47,000. Consulting income in connection with the sale of the TDM business generated \$50,000 in both Fiscal 2004 and Fiscal 2003.

Cost of product sales and leased equipment amounted to \$618,944 or 69.9% of total revenues versus \$357,708 or 59.6% of total revenues for the year ended September 30, 2004 and 2003, respectively. We have not advanced to a level of sales for us to absorb fully the fixed costs related to our revenues

Selling, general and administrative expenses totaled \$3,020,212 for Fiscal 2004 versus \$4,155,660 for Fiscal 2003. This reflects substantial decreases in certain professional fees primarily in connection with litigation

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defense costs and insurance fees for the previous fiscal year's purchase of tail insurance for policies that were not renewed with the same insurer as well as performance based compensation to employees (none in 2004).

Research and Development costs increased to \$283,697 in Fiscal 2004 versus \$122,116 in Fiscal 2003 reflecting additional activities performed in the development of the Company's SteriMed units.

Interest expense increased to \$212,571 in Fiscal 2004 versus \$17,962 in Fiscal 2003. This increase reflects the interest expense, financing costs and amortization relating to loan financings that took place in Fiscal 2004.

The operating loss from operations totaled \$3,249,963 for Fiscal 2004 versus \$4,052,867 for Fiscal 2003. This decrease primarily reflects the cost savings benefits derived under managements' initiatives to control expenses, an increase in revenues, and the elimination of certain one time costs in connection with the acquisition of the MCM Business in Fiscal 2003. A significant portion of the loss from continuing operations in Fiscal 2003 was offset by the gain on sale of approximately \$3.2 million from the sale of the

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TDM business.

THREE MONTHS ENDED DECEMBER 31, 2004 COMPARED TO THREE MONTHS ENDED

DECEMBER 31, 2003

Revenues generated from MCM product sales totaled \$236,908 for the three months ended December 31, 2004 as compared to \$258,884 for the three months ended December 31, 2003. Revenues generated from MCM rentals totaled \$5,326 as compared to \$18,349 for the comparable periods. Consulting and royalty income in connection with the sale of the TDM Business totaled \$20,425 as compared to \$12,500 for the three months ended December 31, 2003.

Cost of product sales and leased equipment amounted to \$161,794 or 61.6% of total revenues versus \$204,719 or 70.7% of total revenues for the three month period ended December 31, 2004 and 2003, respectively. We have not advanced to a level of sales for us to absorb fully the fixed costs related to our revenues

Selling, general and administrative expenses totaled \$672,278 for the three months ended December 31, 2004 versus \$674,236 for the three months ended December 31, 2003.

Research and Development expenses increased to \$76,580 from \$39,595 in the three months ended December 31, 2004 and compared to the same period in 2003. This reflects our increase in development activities in preparation for the production scale-up of the SteriMed Junior.

Interest expense, net totaled \$149,079 for the three months ended December 31, 2004 versus \$434 for the three months ended December 31, 2003. The majority of the interest expense incurred during the three month period ended December 31, 2004 related to interest fees and amortization in connection with the secured convertible notes and bridge financing, which occurred in Fiscal 2004.

The operating loss from operations amounted to \$647,993 and \$628,817 for the three month periods ended December 31, 2004 and 2003, respectively.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, our cash and cash equivalents position approximated \$19,100 versus \$27,600 at September 30, 2004. As further discussed below, on February 15, 2005 we received net proceeds of approximately \$4 million from the sale of Series C Preferred Stock and warrants, and approximately \$2.1 million of indebtedness was converted into or exchanged for Series C Preferred Stock. At March 31, 2005 our cash and cash equivalents position approximated \$2,700,000.

Prior to the completion of this financing, we had suffered from a shortage of capital resources that hampered operations. This resulted in management spending a lot of time pursuing adequate financing to fund our operations.

During the second quarter of fiscal 2004, we raised \$500,000 through a short-term bridge loan, issuing notes due on July 31, 2005, and granting warrants to purchase 16,666 shares of our common stock exercisable at \$5.00 per

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share for a period of five years. The funds were utilized primarily for general working capital. The majority of these funds were provided by our management. The notes bore interest at a rate of 11% per annum and were secured by a first lien on any royalties received by Opus Diagnostics Inc. from Seradyn, Inc. in accordance with their Royalty Agreement. These loans were repaid on February 15, 2005 as part of the preferred stock placement

During the third quarter of fiscal year 2004 we raised \$1.5 million, prior to fees and expenses, through the issuance of 8% Senior Secured Convertible Promissory Notes, repayable, together with interest, from April 27, 2005 to June 10, 2005, subject to prepayment or conversion by the investors into shares of our common stock at a conversion price of \$3.00 per share. As part of the conversion right privilege, we, recognized a discount on debt of approximately \$200,000 and a corresponding increase to paid in capital. These loan were repaid on February 15, 2005 as part of the preferred stock placement.

During the three month period ended December 31, 2004, we received as advances the principal amount of approximately \$138,800 through short-term related party loans. The terms of the loans are identical to the terms of the \$100,000 8% Senior Secured Convertible Promissory Note outlined below. These funds were utilized for general working capital purposes. These loans were repaid on February 15, 2005 as part of the preferred stock placement.

On February 2, 2005, we raised \$100,000 through the issuance of 8% Senior Secured Convertible Promissory Notes, repayable, together with interest to April 3, 2005, subject to prepayment in the event of an equity financing in excess of \$2 Million, or conversion by the investors into shares of our common stock at a conversion price of \$3.00 per share. The lender also received warrants to purchase 5,000 shares of our common stock exercisable at \$5.60 per share for a period of five years. The funds were utilized for general working capital. On February 17, 2005 we repaid this loan together with interest.

On February 15, 2005, we closed on a \$4.5 million preferred stock equity financing before financing related fees and expenses of approximately \$450,000, issuing (i) 45,000 shares of Series C Mandatory Convertible Preferred Stock, (ii) Series A Warrants to purchase an aggregate of 465,517 shares of common stock at an exercise price of \$5.60 per share for a period of five years, and (iii) Series B Warrants to purchase an aggregate of 155,172 shares of common stock at an exercise price of \$2.90 per share for a period of five years exercisable after nine months, subject to a termination condition. Simultaneously, we converted the short-term secured debt outstanding in the aggregate of \$2 million, together with \$72,962 of unsecured indebtedness, into 21,681 shares of Series C Mandatory Convertible Preferred Stock.

We will continue to evaluate additional funding options including equipment financing, banking facilities, loans, government-funded grants and private and public equity offerings. We may also require funds for future acquisitions that would complement our existing business. Some of these financings may result in substantial dilution to current equity holders.

CONTRACTUAL OBLIGATIONS

THE FOLLOWING TABLE SETS FORTH OUR CONTRACTUAL OBLIGATIONS AS OF DECEMBER 31, 2004

TOTAL	LESS THAN	1-3 YEARS	MORE THAN
-----	-----	-----	-----
	1 YEAR		5 YEARS
	-----		-----

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Long Term Debt Obligations*.....	\$ -	\$ -	-	-
Capital Lease Obligations.....	-	-	-	-
Operating Lease Obligations.....	\$ 53,120	\$ 53,120	-	-

* Short Term Debt Obligations in the aggregate amount of \$2 million were repaid pursuant to the February 15, 2005 preferred stock placement.

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CONTINGENT OBLIGATIONS

Our principal contractual commitments include payments under operating leases.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, management evaluates our estimates and assumptions, including but not limited to those related to revenue recognition and the impairment of long-lived assets, goodwill and other intangible assets. Management bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

1. Revenue recognition

The infectious medical waste business recognizes revenues from either the sale or rental of our SteriMed Systems. Revenues for sales are recognized at the time that the unit is shipped to the customer. Rental revenues are recognized based upon either services provided for each month of activity or evenly over the year in the event that a fixed rental agreement is in place.

2. Goodwill and other intangibles

Goodwill and other intangibles associated with the MCM acquisition will be subject to an annual assessment for impairment by applying a fair-value based test. The valuation will be based upon estimates of future income of the reporting unit and estimates of the market value of the unit.

RECENT ACCOUNTING PRONOUNCEMENTS

On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation in the event companies adopt SFAS No. 123 and account for stock options under the fair value method. SFAS No. 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, Interim Financial Reporting (APB 28), to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While the Statement does not

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amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25 Accounting for Stock Issued to Employees (APB 25).

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. In December 2003, the FASB issued Interpretation No. 46(R) ("FIN 46R") which revised certain provisions of FIN 46. Publicly reporting entities that are small business issuers must apply FIN 46R to all entities subject to FIN 46R no later than the end of the first reporting period that ends after December 15, 2004 (as of December 31, 2004, for a calendar year enterprise) The effective date includes those entities to which FIN 46 had previously been applied. However, prior to the application of FIN 46R, a public entity that is a small business issuer shall apply FIN 46 or FIN

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46R to those entities that are considered special-purpose entities no later than as of the end of the first reporting period that ends after December 15, 2003 (as of December 31, 2003 for a calendar year). We do not have any entities that require disclosure or new consolidation as a result of adopting the provisions of FIN 46.

In May 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The changes in this Statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. This Statement is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material effect on our consolidated financial position, results of operations, or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 is the first phase of the FASB's project on liabilities and equity. SFAS No. 150 provides guidance on how an entity classifies and measures certain financial instruments with characteristics of both liabilities and equity. Many of these instruments were previously classified as equity. For example, if an employer's issuance of its shares to a key employee requires the employer to redeem the shares upon the employee's death, then those shares must be classified as a liability, not as equity. For publicly-held companies, SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. SFAS No. 150 requires companies to record the cumulative effect of financial instruments existing at the adoption date. The adoption of SFAS 150 did not have a significant effect on our operations, consolidated financial

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position or cash flows.

In December 2003, a revision of SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" was issued, revising disclosures about pension loans and other post retirements benefits plans and requiring additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The Company expects that the adoption of the new statement will not have a significant impact on its financial statements.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company is in the process of evaluating whether the adoption of SFAS 151 will have a significant impact on the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. The Company has evaluated the impact of the adoption of SFAS 153, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment" Statement 123(R) will provide investors and other users of financial statements with more complete financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123, as originally issued in

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1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities that are small business issuers will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after December 15, 2005. The Company has evaluated the impact of the adoption of SFAS 123(R), and does not believe the impact will be significant to the Company's overall results of operations or financial position.

INFLATION

To date, inflation has not had a material effect on our business. We believe that the effects of future inflation may be minimized by controlling costs and increasing our manufacturing efficiency through the increase of our product sales.

BUSINESS

BACKGROUND

Caprius, Inc. is engaged in the infectious medical waste disposal business. In the first quarter of Fiscal 2003, we acquired a majority interest in M.C.M. Environmental Technologies, Inc. which develops, markets and sells the SteriMed and SteriMed Junior compact units that simultaneously shred and disinfect Regulated Medical Waste. The SteriMed Systems are sold in both the domestic and international markets.

In December 2002, the Company closed the acquisition of our initial investment of 57.53% of the capital stock of MCM for a purchase price of \$2.4 million. MCM wholly-owns MCM Environmental Technologies Ltd., an Israeli corporation, which initially developed the SteriMed Systems. Upon closing, our designees were elected to three of the five seats on MCM's Board of Directors, with George Aaron, President and CEO, and Jonathan Joels, CFO, filling two seats. Additionally, as part of the transaction, certain debt of MCM to its existing stockholders and to certain third parties was converted to equity in MCM or restructured. Pursuant to its Letter of Intent with MCM, Caprius had provided MCM with loans totaling \$565,000, which loans were repaid upon closing by a reduction in the cash portion of the purchase price. As part of the Stockholders Agreement dated December 17, 2002, there were certain provisions relating to performance adjustments for the twenty four month period post closing. As a consequence, the Company's ownership interest increased by 5% in the fiscal year 2004.

Caprius, Inc. was founded in 1983 and through June 1999 essentially operated in the business of developing specialized medical imaging systems, as well as operating the Strax Institute, a comprehensive breast imaging center. In June 1999, we acquired Opus and began manufacturing and selling medical diagnostic assays constituting the TDM Business. In October 2002, we sold the TDM business to Seradyn, Inc. The Strax Institute was sold in September 2003.

BACKGROUND OF THE REGULATED MEDICAL WASTE INDUSTRY IN THE UNITED STATES

In 1988, the Federal Government passed the Medical Waste Tracking Act ("MWTA"). This act defined medical waste and the types of medical waste that were to be regulated. In addition to defining categories of medical waste, the law mandated that generators of Regulated Medical Waste ("RMW") be responsible for and adhere to strict guidelines and procedures when disposing of RMW. The mandates included a "cradle to grave" responsibility for any RMW produced by a

facility, the necessity to track the disposal of RMW and defined standards for segregating, packaging, labeling and transporting of RMW.

The MWTA led to the development of individual state laws regulating how RMW is to be disposed of. As a result of these laws, it became necessary for medical waste generating facilities to institute new procedures and processes for transporting medical waste from the facility to an offsite treatment and disposal center, or obtain their own on-site system for treatment and disposal acceptable to the regulators. By 1999, Health Care Without Harm, a coalition of 240 member organizations, estimated that 250,000 tons of RMW was produced annually.

The other major impact on the RMW market was the adoption of the Clean Air Amendments of 1997. This act dramatically reduced or eliminated the type of emissions that are permitted from the incineration of RMW. Due to this, generators of RMW, which were incinerating their waste, were forced into costly upgrades of their incinerators or to find other methods of disposal. Hospital incinerators decreased from 6,200 in 1988 to 115 in 2003 (Mackinac Chapter, Sierra Club Newsletter Aug-Oct 2003).

Most generators of RMW use waste management firms to transport, treat and dispose of their waste. Due to the legislative and other market factors, the costs for this type of service have been increasing at a dramatic pace. At the same time, many medical waste generators are coming under increasing pressure to reduce expenses as a result of the decreasing percentage of reimbursement from Medicare and other third party providers. Additionally, the added liability of RMW generators as a result of the "cradle to grave" manifest requirement has made it more attractive to use medical waste management methods that do not require manifest systems. The combination of these pressures is forcing medical waste generators to seek innovative methods for their waste disposal. MCM believes these factors create a demand for an onsite RMW treatment option. MCM has identified and is working with specific segments and niches within the RMW market on which it feels it might capitalize. The specifics of these will be discussed in the Marketing section.

BACKGROUND OF THE REGULATED MEDICAL WASTE INDUSTRY OUTSIDE OF THE UNITED STATES

The industrialized countries of the European Union and Japan are implementing medical waste laws that are or will be similar to US regulations. In 1994, the European Commission implemented a directive where member states had to adhere to the provisions of the United Nations Economic Commission for Europe ("UNECE") European Agreement on the International Carriage of Dangerous Goods by Road. This requires that clinical or medical waste would be packed, marked, labeled and documented according to defined specifications. Regulations and cost factors have prompted European RMW generators to seek alternative medical waste disposal options. MCM recognizes an excellent opportunity for SteriMed sales in Europe, and is working with regulators, potential joint venture partners and distributors.

Throughout the less industrialized and third world countries, the disposal of hospital waste is coming under increasing scrutiny and regulations. Many countries are in the process of updating and enforcing regulations regarding the disposal of RMW. MCM is attempting to establish relationships worldwide directly or through distributors, in many of these countries.

THE MCM STERIMED SYSTEMS

The SteriMed Systems are patented, environmentally friendly, on-site

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disinfecting and disposal units that can process regulated clinical waste, including sharps, dialysis filters, pads, bandages, plastic tubing and even glass, in a 12 minute cycle. The units simultaneously shred, grind, mix and disinfect the waste with the proprietary Ster-Cid solution. After treatment, the material may be discarded as unrecognizable conventional solid waste, in accordance with appropriate regulatory requirements. The resultant treated waste is as low as 10% of the original volume.

As the technology for disinfection is chemical based, within the definitions used in the industry, it is considered as an alternative treatment technology.

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The SteriMed System is comprised of two different sized units and the required Ster-Cid disinfectant solution which is utilized with both. The larger SteriMed unit can treat up to 20 gallons (75 liters) of medical waste per cycle. The smaller version, SteriMed Junior, can treat 4 gallons (15 liters) per cycle.

We have the worldwide exclusive rights for the manufacture, use and sale of the Ster-Cid proprietary disinfectant used in the SteriMed Systems. The Ster-Cid is currently manufactured solely for us by the licensor. In the event that the licensor is unable to manufacture the Ster-Cid, we have the right to have Ster-Cid manufactured by an alternative manufacturer. Ster-Cid is approximately 90% biodegradable. Ster-Cid is considered a pesticide by the U.S. EPA and, in compliance with FIFRA; it is registered with the U.S. EPA. The process of registering a pesticide under FIFRA involves submission of an application package to the U.S. EPA. The EPA's review of this application includes assessment of the hazards to human health and the environment that may be posed by the pesticide. This process can take up to a year or more to complete. MCM had assigned an agent experienced with the FIFRA registration process to carry out this process for Ster-Cid. This process was completed in September 1999 at which time the Ster-Cid was assigned a FIFRA Registration number. On an annual basis, MCM is required to report to the U.S. EPA the quantities of Ster-Cid sold and projections for the upcoming year.

During the SteriMed disinfecting cycle, the concentration of Ster-Cid is approximately 0.5% of the total volume of liquids. The Ster-Cid disinfectant has been tested in independent laboratories and shown to meet U.S. EPA guidelines for disinfection. Furthermore, it is accepted by POTW, allowing for its discharge into the sewer system.

Both the SteriMed and SteriMed Junior are safe and easy to operate, involving 1/2 day of training provided by our technical support staff to operators as designated by the end-user. The operator is trained to handle the daily and weekly responsibilities for the routine preparation, maintenance, and minor troubleshooting of the SteriMed Systems. Daily maintenance includes filling the system with the Ster-Cid, removal and replacement of the filter bags, and disposing of the filter bag as black bag waste.

The trained operator places the red bag waste containing RMW into the SteriMed receiver chamber and activates the start button. The water and Ster-Cid are then automatically released into the treatment chamber. The shredding, grinding and mixing of the waste is then initiated to expose all surfaces of the medical waste to the chemical solution during the 12 minute processing cycle. At the end of each specified number of cycles, trained operator then puts the residue into a regular black bag, ready for disposal as regular solid waste.

Both SteriMed and the SteriMed Junior are equipped with an integrated

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monitoring system, including a PLC display, which indicates each of the system's functions to guide the operator through its operations. Access to the PLC program is secured, accessible only by MCM's technicians to prevent operators from overriding the treatment process. Relevant information concerning treatment parameters may be electronically forwarded, at the end of each treatment cycle, to a designated printer at any location within the facility. In addition, the system is capable, at the option of the facility, to have the treatment parameters for all cycles in a day forwarded to MCM's maintenance center.

REGULATIONS AND REGULATORY COMPLIANCE FOR ALTERNATIVE MEDICAL WASTE TREATMENT TECHNOLOGIES IN THE UNITED STATES

Our use of the Ster-Cid disinfectant in the SteriMed Systems is registered by the U.S. EPA under FIFRA. The Ster-Cid disinfectant is considered a pesticide, and is registered under FIFRA Number 71814. FIFRA gives the federal government control over the distribution, sale and use of pesticides. All pesticides used in the U.S. must be registered (licensed) by the U.S. EPA under FIFRA. Registration of pesticides is to seek assurance that they will be properly labeled, and if used in accordance with label specifications, will not cause unreasonable harm to the environment.

The SteriMed Systems are regulated at the state level by the individual states' Environmental, Conservation, Natural Resources, or Health Department. Each state has its own specific approval requirements. Generally, most states require an application for registration or approval be submitted along with back up information, including but not limited to operating manuals, service manuals, and procedures. Additionally, many states require contingency

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and safety plans be submitted, and that efficacy testing be performed. MCM has demonstrated through efficacy testing that it can inactivate the 4Log10 concentration of *Bacillus atrophaeus* (formerly *Bacillus subtilis*) spores. This meets or exceeds most state regulatory requirements.

The SteriMed has been cleared for marketing in 46 states and the SteriMed Junior in 40 states. The Ster-Cid disinfectant has been registered in 49 states. We are currently seeking approvals from the remaining states.

Local and county level authorities generally require that discharge permits be obtained from POTW's by all facilities that discharge a substantial amount of liquids or specifically regulated substances to the sewer system. The SteriMed Systems process effluent has been characterized and found to be within the lower range of the general discharge limits set forth by the National Pollutant Discharge Elimination System (NPDES) Permitting Program, which are used to establish POTW discharge limits.

These approvals allow the SteriMed Systems effluent to be discharged to a municipal sewer and the treated disinfected waste to be disposed of in a municipal landfill.

The process used by the SteriMed Systems, unlike many other waste medical disposal technologies, is not subject to the Clean Air Act Amendments of 1990 because there is no incineration or generation of toxic fumes in the process. It is also not subject to the Hazardous Materials Transportation Authorization Act of 1994 as there is no transportation of hazardous waste involved.

REGULATIONS AND REGULATORY COMPLIANCE FOR ALTERNATIVE MEDICAL WASTE TREATMENT

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TECHNOLOGIES OUTSIDE OF THE UNITED STATES

CE Mark compliancy is an expected requirement for equipment sold in the European Union ("EU"). The SteriMed Systems are CE Mark compliant. In order to meet the specific regulatory requirements of the individual members of the EU, MCM will undertake further efficacy testing where necessary in order to demonstrate that the SteriMed Systems conform to all the standards in the specific EU member country. Outside of the EU, we are required to review and meet whatever the specific standards a country may impose. In countries where we have distributors, they are required to obtain the necessary regulatory approvals on our behalf at their expense.

COMPETITION

RMW has routinely been treated and disposed of by incineration. Due to the pollution generated by medical waste incinerators, novel technologies have been developed for the disposal of RMW. Some of the issues confronting these technologies are: energy requirements, space requirements, unpleasant odor, radiation exposure, excessive heat, volume capacity and reduction, steam and vapor containment, and chemical pollution. The use of the SteriMed Systems eliminates concern about these issues: space and energy requirements are minimal, there are no odors, radiation, steam, vapor or heat generated, solid waste volume is reduced by up to 90% and the disinfecting chemical is 94% biodegradable. The following are the various competitive technologies:

Autoclave (steam under pressure): Autoclaves and retort systems are the most common alternative method to incineration used to treat medical waste. Autoclaves are widely accepted because they have historically been used to sterilize medical instruments. However, there are drawbacks as autoclaves may have limitations on the type of waste they can treat, the ability to achieve volume reduction, and odor problems.

Microwave Technology: Microwave technology is a process of disinfection that exposes material to moist heat and steam generated by microwave energy. The waves of microwave energy operate at a very high frequency of around 2.45 billion times per second. This generates the heat needed to change water to steam and carry out the disinfection process at a temperature between 95 and 100 degrees centigrade. Use of this technology requires that proper precautions be taken to exclude the treatment of hazardous material so that toxic emissions do not occur. Also offensive odors may be generated around the unit. The capital cost is relatively high.

Thermal Processes: Thermal processes are dry heat processes and do not use water or steam, but forced convection, circulating heated air around the waste or using radiant heaters. Companies have developed both large and small

dry-heat systems, operating at temperatures between 350oF-700oF. Use of dry heat requires longer treatment times.

High Heat Thermal Processes: High heat thermal processes operate at or above incineration temperatures, from 1,000oF to 15,000oF. Pyrolysis, which does not include combustion or burning, contains chemical reactions that create gaseous and residual waste products. The emissions are lower than that created by incineration, but the pyrolysis demands heat generation by resistance heating such as with bio-oxidation, induction heating, natural gas or a combination of plasma, resistance hearing and superheated steam.

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Radiation: Electron beam technology creates ionized radiation, damaging cells of microorganisms. Workers must be protected with shields and remain in areas secured from the radiation.

Chemical Technologies: Disinfecting chemical agents that integrate shredding and mixing to ensure adequate exposure are used by a variety of competitors. Chlorine based chemicals, using sodium hypochlorite and chlorine dioxide, are somewhat controversial as to their environmental effects and their impact on wastewater. Non-chloride technologies are varied and include peracetic acid, ozone gas, lime based dry powder, acid and metal catalysts as well as alkaline hydrolysis technology used for tissue and animal waste.

Among the competitors are Stericycle, Inc., Steris Corporation, Sanitec, Inc. Positive Impact Waste Solutions, Inc., Waste Processing Solutions Company, Global Environmental Technologies, LLC, and Waste Reduction, Inc.

COMPETITIVE FEATURES OF THE STERIMED SYSTEMS

Seizing the opportunity afforded by the regulatory changes and pricing pressures in the healthcare industry, we are positioning our products as viable alternatives to the traditional medical waste disposal methods. The SteriMed Systems seek to offer medical waste generators a true on-site option that is less risky, less expensive, and more environmentally friendly than the alternatives. The main competitive advantages of the SteriMed Systems are:

Safety

- a) No need to pack containers of medical waste
- b) No need to transport infectious waste through facilities with patients
- c) No need to ship infectious medical waste on public roads
- d) Environmentally sound approach for disinfection - uses biodegradable chemicals; does not release smoke, odor, steam or other emissions to the air; removes the need for incineration
- e) Noise level during cycle is approx. 70.1dB(A), regarded below levels of noise safety concerns by most government regulations

Labor

- a) Reduce the exposure to infectious waste by limiting the time an employee handles, stores and packs the waste
- b) No need to administer and track waste that is shipped from the facility
- c) Ease of use
- d) Employee can continue to perform regular functions while the SteriMed treatment cycle is their operational

Convenience

- a) Easily installed requiring only electricity, water and sewage outlet. No special ventilation or lighting required.
- b) Can fit through regular doorway.
- c) Limited training required for operators.
- d) Due to size, units can be strategically placed in a health care facility near high waste generation sites (e.g. floor of operating room, infectious disease ward)

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Cost Saving

- a) Less labor time
- b) No transportation costs to incineration site
- c) Our preferred business model is to rent the SteriMed Systems to U.S. facilities generating the infectious clinical waste. This model obviates the need for capital investment by users, and should also reduce previous operating expenses in disposing of medical waste.

Compliant with Federal and States regulations

Enable infectious medical waste generating facilities to replace existing systems while meeting federal, state and local environmental as well as health regulations.

These features are intended to make the use of the SteriMed Systems a very attractive solution to health care organizations, especially those that are forced to reconsider their current medical waste management programs because of federal and state regulations or because of pressures to reduce operating costs.

MARKETING STRATEGY

We have designed and are implementing a marketing program which maximizes the uniqueness and strengths of the SteriMed Systems while enhancing our customers' cash flow and minimizing their financial restraints. Our sales focus is to those sites which best fit the capabilities and requirements of our systems. These include those sites generating approximately 2,000 to 12,000 pounds of RMW per month and are able to provide a room with a minimum of 75 square feet with proper plumbing and electricity for the storage and operation of the machine. Within the United States these facilities include dialysis centers, surgical centers, plasma phoresis centers, blood banks, commercial laboratories (both research and clinical), large physician group practices and specific sites within hospitals.

Many of these facilities are owned by national or international corporations operating many facilities. By focusing our sales efforts to these corporations we will be able to have multiple machine placements within the same organization. This offers many advantages to the customer and to us. Not only will we be able to maximize our selling efforts, we will also be able to compound our warranty and service effectiveness. This strategy should enable us to maximize resources and quickly obtain market penetration. We are presently working with a number of these customers in the implementation of this strategy and in fiscal year 2005, we received our first significant order in the US for the SteriMed Junior from a major dialysis company.

We do not have the depth of marketing or financial capacity that many of our competitors have and thus are reliant upon generating interest in our products by virtue of our technical advantages. This aspect is emphasized in our limited budget allocated for marketing.

Our business marketing models in the U.S. are either lease or purchase of the SteriMed Systems. The basic lease terms are a single monthly fee which will include the cost of the SteriMed, disposables and service for the life of the lease. Lease terms are usually five years. In the rest of the world, only the purchase option is available. Leasing is not available outside of the US because of the potential difficulty in monitoring and collecting monthly leasing fees. Our distributors, however, are free to sell or lease the SteriMed Systems in their respective markets. Regulatory approvals are required prior to marketing in any country, whether the business is conducted by us or our

distributors.

To maximize and augment our sales efforts in the U.S., we have been actively recruiting distributors. Ideally, we are seeking local and regional distributors who will have the exclusive right to sell the SteriMed Systems and related products with their prescribed geographical area. In order to gain exclusivity, the distributor must commit to minimum annual purchases. The distributor is obligated to work within the guidelines and regulatory approvals set up and maintained by us. We have three distributors, and we are in negotiations with two possible distributors.

Internationally, we have distribution agreements in the following countries: Argentina, Australia, Brazil, Columbia, Costa Rica, Cyprus, Greece, Japan, Mexico, Paraguay, Poland, Scandinavia (Norway, Sweden, Finland and

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Iceland), Singapore, Taiwan, Tunisia and Uruguay. In each of the countries, it is the distributors' responsibility to obtain, at their own expense, all regulatory approvals which will be registered in the name of MCM.

MANUFACTURING

We recognize that to be successful, we need to manufacture units that are;

- 1) Robust
- 2) Reliable
- 3) Reproducible in their activity

Presently, we manufacture the SteriMed at our facility in Moshav Moledet, Israel. Our current inventory of the SteriMed Junior was manufactured by a third party manufacturer in Israel. We are actively seeking alternative locations in North America for the manufacture of our SteriMed Junior. This includes subassembly manufacturers which will enable us to complete the final assembly at our own facilities if this proves to be the most cost effective solution. We anticipate that we would be able to complete the final assembly of the SteriMed Junior in our own facilities in the U.S. By the time we will need larger scale manufacturing capacity, we believe we will have located and qualified an alternative manufacturing location to fulfill these requirements and at costs acceptable to us.

Approximately half of the SteriMed Systems' components are commercially available from third party suppliers. The remaining components are either generic with modification or customized specifically for the SteriMed. We presently have depots for parts and supplies located in Ridgefield, NJ and Moledet, Israel.

MAINTENANCE AND CUSTOMER SERVICE MODEL

Critical to the successful use of the SteriMed Systems is the proper training of the personnel carrying out the installation, operation and service of the equipment. The Company provides our customers with a warranty covering parts and labor for one year. Thereafter, we offer an extended warranty program. Our technical service staff assists clients in the installation of units and the training of their staff and on-site operators. This training program is strongly geared to safety and maintenance to assure ongoing safe and smooth operation of the unit. After installation and training, operation of the unit is monitored by our technical staff to assure proper performance. Our technical staff is on call

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to assist in fixing problems or perform repairs. Our goal is to minimize problems through ongoing training and strict adherence to maintenance schedules. Our Customer Service staff is available to help with any questions or issues our customers might have.

PROPRIETARY RIGHTS

There exist various medical waste treatment technologies that can be combined and employed in different ways, making trademarks and patents very important pieces of intellectual property to possess in the medical waste treatment industry.

MCM acquired and/or applied for trademarks and patents for our SteriMed and Ster-Cid products as indicated in the following tables. The validation for patents is extended to fifteen years, provided an annual fee (on renewal dates) is paid in the respective country.

SteriMed Systems has an International Class 10 Trademark for Israel, United States, Canada, Japan, Australia, Mexico, Russia, Hungary, Poland, and for Community Trademark ("CTM" - European).

MCM STERIMED - INTERNATIONAL CLASS 10 TRADEMARK:

FILE NO.	COUNTRY	APPLICATION NO.	APPLICATION DATE	TRADEMARK NO.	RENEWAL DATE
99200	Israel	113,697	7/20/1997	113,697	07/20/2007
99207	U.S.A.	75/904,419	01/28/2000	2,724,738	10/20/2013

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MCM STERIMED - INTERNATIONAL CLASS 10 TRADEMARK: (CONT'D)

FILE NO.	COUNTRY	APPLICATION NO.	APPLICATION DATE	TRADEMARK NO.	RENEWAL DATE
99208	Canada	1035659	11/12/1999	TMA 596,538	12/04/2018
99209	CTM(European)	1380146	11/11/1999	1380146	11/11/2009
99210	Japan	11-103145	11/12/1999	4462258	03/23/2011
99211	Australia	813208	11/09/1999	813208	11/09/2009

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99212	Mexico	472508	02/23/2001	701862	02/23/2011
99214	Russia	99719243	11/18/1999	209618	11/18/2009
99216	Hungary	m-9905278	11/10/1999	165158	11/10/2009
99218	Poland	Z-209695	11/10/1999	148086	11/10/2009

The Ster-Cid disinfectant has an International Class 5 Trademark for Israel, United States, Canada, Japan, Australia, Mexico, Russia, Hungary, Poland, and CTM.

MCM STER-CID INTERNATIONAL CLASS 5 TRADEMARK:

FILE NO.	COUNTRY	APPLICATION NO.	APPLICATION DATE	TRADEMARK NO.	RENEWAL DATE
99200	Israel	131893	11/01/1999	131893	11/01/2006
99201	U.S.A.	75/904,150	01/29/2000	2,713,884	05/06/2013
99202	Canada	1035658	11/12/1999	TMA 596,329	12/03/2018
99203	CTM(European)	1380195	11/11/1999	1380195	11/11/2009
99204	Japan	11-103144	11/12/1999	4562185	04/19/2007
99205	Australia	813207	11/09/1999	813207	11/09/2009
99206	Mexico	412940	02/23/2001	656603	02/25/2010
99213	Russia	99719294	11/18/1999	200276	11/17/2009
99215	Hungary	M-9905279	11/10/1999	164682	11/10/2009
99217	Poland	Z-209696	11/10/1999	145760	11/10/2009

The SteriMed has patents in Australia, Japan, United States, Canada, Europe and South Africa. Additionally, there are patent applications pending in the United States (provisional), Australia, Brazil, Mexico, Russia, Canada, China, India, and Patent Corporation Treaty ("PCT").

MCM STERIMED PATENTS:

APPLICATION

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FILE NO.	COUNTRY	APPLICATION NO.	DATE	PATENT NO.	PATENT DATE	VALID
9346	Israel	108,311	01/10/1994	108,311	12/23/1999	01/10
9452	Australia	10096/95	01/09/1995	684,323	04/2/1998	01/09
9453	Japan	7-011844	01/23/1995	3058401	04/21/2000	01/27
9454	U.S.A.	08/369,533	01/05/1995	5,620,654	04/15/1997	04/15
9456	Canada	2,139,689	01/06/1995	2,139,689	10/5/1999	01/06
9455	Europe	95630001.6	01/05/1995	EP0662346	03/28/2001	01/05

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MCM STERIMED PCT INTERNATIONAL PHASE PATENTS:

FILE NO.	COUNTRY	APPLICATION NO.	APPLICATION DATE	PATENT NO.	PATENT DATE	V
	PCT	PCT/IL02/00093	02/04/2002	WO2002/062479 A1	08/15/2002	0
2337	Australia	2002230065	02/04/2002	Pending*	Pending	0
2338	Brazil	200300398	07/31/2003	Pending*	Pending	0
2339	Mexico	PA/a/2003/006946	08/04/2003	Pending*	Pending	0
2340	Russia	2003127023	09/04/2003	Pending*	Pending	0
2341	So. Africa	2003/5602	07/21/2003	2003/5602	09/23/2003	0
2342	Canada	2437219	08/01/2003	Pending*	Pending	0
2343	China	02806986.2	09/22/2003	Pending*	Pending	0
2344	India	01389/chenp/03	09/02/2003	Pending*	Pending	0
2373	USA	09/824,685	04/04/2001	6494391	12/17/2002	0
2313/354	Europe	02711185.5	09/05/2003	P210477PCT/EP	Pending	0

*Applied for as a temporary patent until the PCT takes effect.

We maintain, in-house, a system that tracks all expiration dates for our trademarks and patents. This internal tracking system alerts us when renewal

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submissions are required.

STRAX INSTITUTE BUSINESS

For several years prior to September 30, 2003, we operated Strax, a comprehensive breast imaging center located in Lauderhill, Florida. Strax was a multi-modality breast care center performing approximately 20,000 procedures annually comprising of x-ray mammography, ultrasound, stereotactic biopsy and bone densitometry. As of September 30, 2003, we sold Strax for \$412,000. Fifty percent (50%) of the purchase price was paid on closing and the balance is payable in installments evidenced by a note secured by the accounts receivables of Strax Institute, Inc. During the first quarter of fiscal year 2005, the parties agreed to settle the net outstanding balance in a lump sum payment of \$66,000, which was paid in two equal installments in December 2004 and January 2005. Additionally, two of our executive officers are restricted for a period of five years from competing in the mammography and bone densitometry business in the States of Florida and New Jersey.

THERAPEUTIC DRUG MONITORING BUSINESS

From June to October 9, 2002, our subsidiary Opus was engaged in the development, distribution and sale of diagnostic assays, controls and calibrators for therapeutic drug monitoring ("TDM"), which were sold under the trademark Innofluor in kit form for use on the Abbott TDx and TDxFLx instruments. Opus received and accepted an unsolicited offer from Seradyn to purchase the assets of its TDM Business for \$6 million plus future royalties. Seradyn had been a contract manufacturer of the Opus TDM kits. Under a two year Consulting Agreement ending on October 8, 2004, Opus consulted Seradyn with ongoing projects for an annual fee of \$50,000. The purchased assets included three diagnostic assays still in development, for which Opus will receive royalty payments upon the commercialization of any of these assays based upon varying percentages of net sales for up to ten years from closing. We have been informed that one of the assays under development for a new drug for anti-rejection in transplantation has been completed. The drug has already received approval in certain countries where the assay test kit to monitor the drug is already being sold. Caprius, Opus and its three executive officers entered into non-compete agreements with Seradyn restricting them for five years from competing in the TDM business.

EMPLOYEES

As of April 11, 2005, we employed fifteen full time employees, including three senior managers, of which five employees are located at our facility in Israel.

None of our employees is represented by any labor organization and we are not aware of any activities seeking such organization. We consider our relations with employees to be good.

As the level of our activities grow, additional personnel may be required.

PROPERTIES

We lease 2,758 square feet of office space in Fort Lee, New Jersey for executive and administrative personnel pursuant to a lease that expires on September 30, 2005 at a base monthly rental of approximately \$6,665, plus

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escalation. We also lease approximately 1,500 square feet of space in Ridgefield, NJ for warehousing and assembly at a monthly cost of \$1,850. This lease expires on July 31, 2005 and is subject to a 5% increment yearly. We are currently looking to combine these two locations so that we will have a site for the demonstration of the Sterimed System to prospective customers.

In Israel, we lease 2,300 square feet of industrial space at a monthly cost of approximately \$865 and the lease expires on March 31, 2006.

LITIGATION

In June 2002, Jack Nelson, a former Caprius executive officer and director, commenced two legal proceedings against us and George Aaron and Jonathan Joels, executive officers, directors and principal stockholders. The two complaints alleged that the individual defendants made misrepresentations to the plaintiff upon their acquisition of a controlling interest in the Company in 1999 and thereafter made other alleged misrepresentations and engaged in mismanagement and other misconduct and took other actions as to the plaintiff to the supposed detriment of the plaintiff and Caprius. One action was brought in Superior Court of New Jersey, Bergen County ("State Court Action"), and the other was brought as a derivative action in Federal District Court in New Jersey ("Federal Derivative Action"). In September 2003, we resolved the State Court Action by making an Offer of Judgment which was accepted by the plaintiff. Under the terms of the Offer of Judgment, which was made without any admission or finding of liability on part of the defendants, we paid \$125,000 to the plaintiff and the action was discontinued. The cost associated with the Offer of Judgment was recorded in the selling, general and administrative expenses within the consolidated statement of operations for the year ended September 30, 2003.

On May 3, 2004, the Court in the Federal Derivative Action granted the motion made by us and Messrs. Aaron and Joels for judgment on the pleadings based upon the pre-suit demand requirement and dismissed the plaintiff's complaint without prejudice, but denied defendants' motion for judgment on the pleadings based upon the Private Securities Litigation Reform Act. The Court also granted the plaintiff's cross-motion to file an amended complaint to add allegations of insider trading.

In September 2002, we were served with a complaint naming us and our principal officers and directors in the Federal District Court of New Jersey as a purported class action (the "Class Action"). The allegations in the complaint cover the period between February 14, 2000 and June 20, 2002. The initial plaintiff is a relative of the wife of the plaintiff in the State Court Action and Federal Derivative Action. The allegations in the purported Class Action were substantially similar to those in the other two Actions. The complaint sought an unspecified amount of monetary damages, as well as the removal of the defendant officers as shareholders.

On May 3, 2004, in a decision separate from the decision in the Federal Derivative Action, the Court granted the defendants' motion and dismissed the Class Action. The federal securities claims asserted by the plaintiffs were dismissed with prejudice, and having dismissed all federal law claims, the Court declined to exercise jurisdiction over the remaining state law claims and dismissed those claims without prejudice. On May 14, 2004, the plaintiffs filed a motion for reconsideration, which defendants opposed and subsequently this motion for reargument was denied. The plaintiff did not file a notice of appeal during the statutory time period.

On September 30, 2004, our Board received a letter written from Mr. Nelson's attorney making a demand that we institute a derivative action substantially similar to the allegations presented in the Federal Derivative Action. A draft complaint was included with the letter. In December 2004, an

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Independent Committee of the Board responded to the letter within the stipulated 90 day period that Mr. Nelson had requested, stating that the Independent Committee determined that there was no basis for the Company to institute the derivative action as demanded. There has been no further communication from Mr. Nelson's attorney.

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The independent directors have authorized us to advance the legal